

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 EB-08 COME-00 STR-06 ITC-01 TRSE-00
OMB-01 CEA-01 CIAE-00 DODE-00 PM-05 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 AGRE-00 /076 W
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FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC 6442

C O N F I D E N T I A L JAKARTA 1240

E.O. 11652: GDS
TAGS: EAGR, EINV, EFIN, ID
SUBJECT: MINISTER PRAWIRO ON TIMBER EXPORT DUTIES

REF: (A) JAKARTA 0934, (B) STATE 014922,

1. DURING PREVIOUSLY SCHEDULED COURTESY CALL ON MINISTER OF
TRADE RADIUS PRAWIRO, AMBASSADOR RAISED SUBJECT OF INCREASE IN
EXPORT TAX ON LOGS, AND ASKED PRAWIRO IF HE WAS NOT CONCERNED
THAT THIS MOVE MIGHT RUN COUNTER TO DESIRE TO ATTRACT ADDITIONAL
INVESTMENT TO INDONESIA. PRAWIRO RESPONDED THAT HE DID NOT
THINK SO, AND HE CERTAINLY HOPED THAT IT WOULD NOT HAVE THIS
NEGATIVE EFFECT. THE PROBLEM, HE SAID, IS THAT SOME 60 PERCENT
OF INDONESIA'S LOGS GO TO JAPAN. (COMMENT: TRADE FIGURES
SHOW 51 PERCENT BUT TRANSSHIPMENTS THROUGH SINGAPORE MAY ACCOUNT
FOR THE DIFFERENCE.) THE PRICE FLUCTUATES WIDELY BETWEEN \$40
PER CUBIC METER UP TO \$60 TO \$65. FIRMS OPERATING IN INDONESIA
CONTINUE TO HARVEST TREES UP TO THE LIMITS PROVIDED BY THEIR
AGREEMENTS. IF THE DEMAND FALLS OFF IN JAPAN, AS HAS HAPPENED
RECENTLY, THE MARKET IS GLUTTED AND THE PRICE FALLS. THE JAPANESE
BLAME THIS ON REDUCED U.S. PURCHASES OF PLYWOOD, BUT THIS DOES
NOT HELP THE FACT THAT INDONESIA OBTAINS A SMALLER RETURN ON ITS
EXPORTS. THE INCREASED TAX ON LOGS IS DESIGNED TO MAKE THE
JAPANESE THINK TWICE BEFORE THEY TAKE FROM INDONESIA MORE LOGS
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THAN CAN ACTUALLY BE HANDLED WITHOUT DEPRESSING PRICES. IN
ADDITION, PRAWIRO SAID, INDONESIA HOPES THAT ADDITIONAL PROCESSING
FACILITIES WILL BE ESTABLISHED IN INDONESIA. AS IT
IS NOW, MOST OF THEIR LOGS ARE PROCESSED IN JAPAN, KOREA
OR TAIWAN. THEY WANT TO ENCOURAGE DEVELOPMENT OF ADDITIONAL
FACILITIES HERE. THERE WOULD BE NO EXPORT TAX, HE SAID, FOR
PROCESSED OR SEMI-PROCESSED LUMBER PRODUCTS. PRAWIRO SAID

HE WOULD BE GLAD TO DISCUSS THIS MATTER AND TO EXPLAIN THE GOI POSITION TO REPRESENTATIVES OF FOREIGN FIRMS IF THEY WERE CONCERNED ABOUT THE GOI POLICY. AMBASSADOR EXPRESSED APPRECIATION FOR THIS BUT SAID HE HOPED GOI WOULD BEAR CLEARLY IN MIND THAT RAISING LOG TAX WOULD CREATE SERIOUS PROBLEMS FOR THE U.S. FIRMS INVOLVED, COULD ACTUALLY RESULT IN A NET REDUCTION OF REVENUES TO THE GOI AND WOULD ALMOST CERTAINLY HAVE AN ADVERSE IMPACT ON INDONESIA'S INVESTMENT CLIMATE.

2. PRAWIRO'S COMMENT THAT INDONESIA RAISED TAXES ON LOG EXPORTS AT A TIME OF FALLING MARKET DEMAND IN ORDER TO "MAKE THE JAPANESE THINK TWICE" WILL OFFER COLD COMFORT INDEED TO INDONESIA'S LOG EXPORTERS. IN FACT, WE DOUBT THAT THIS REALLY PLAYED A MAJOR ROLE IN THE GOI MOVE. MINISTER PRAWIRO'S SECOND REASON, I.E., TO ENCOURAGE PROCESSING HERE, IS UNDOUBTEDLY THE MORE SIGNIFICANT REASON FOLLOWED BY A DESIRE TO INCREASE GOVERNMENT REVENUES. HOWEVER, THE IMPACT OF THE MOVE AT A TIME OF FALLING DEMAND COULD BE NEGATIVE BOTH WITH REGARD TO THE TIMBER COMPANIES, AND WITH REGARD TO THE GOI'S ASPIRATIONS FOR INCREASED PROCESSING FACILITIES.

3. THE VICE PRESIDENT OF WEYERHAEUSER'S LOCAL JOINT VENTURE COMPANY HAS SENT THE AMBASSADOR A LETTER IN WHICH, AMONG OTHER THINGS, HE CLAIMS THAT THE PROPOSED CHANGES WILL COST THE GOI MORE THAN IT WILL GAIN IN INCREASED REVENUES (A COPY OF THE LETTER AND ITS ENCLOSURES HAS ALREADY BEEN POUCHED TO CONFIDENTIAL

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EA/TIMBS). HOWEVER, AS WE NOTED IN REF A, WE BELIEVE THE FULL IMPACT AND THE MEASURES THE GOI WILL TAKE TO IMPLEMENT THIS TAX REMAIN TO BE SEEN. DURING A LUNCHEON CONVERSATION WITH THE AMBASSADOR ON JANUARY 26, THE WEYERHAEUSER VICE PRESIDENT EXPRESSED APPRECIATION THAT HE HAD RAISED THE ISSUE WITH THE MINISTER OF TRADE AND SAID NEGOTIATIONS WERE UNDERWAY WHICH WILL HOPEFULLY RESULT IN SUSPENDING ANY INCREASE IN THE EXPORT TAX ON LOGS. HE WILL LET US KNOW WHEN AND IF HE BELIEVES IT WOULD BE USEFUL FOR US TO RAISE ISSUE AGAIN.
MASTERS

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NNN

Message Attributes

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Draft Date: 27 jan 1978
Decaption Date: 01 jan 1960
Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
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